

Message Text

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ORIGIN ARA-17

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CIAE-00 INR-10 NSAE-00 RSC-01 SS-15 NSC-10 TRSE-00

OEP-01 OMB-01 STR-08 CIEP-02 H-02 PA-03 USIA-12 PRS-01

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FM SECSTATE WASHDC

TO AMEMBASSY QUITO

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E. O. 11652: N/ A

TAGS: BDIS, ENRG, EC

SUBJECT: MEETING WITH AMINOIL OFFICIALS

1. SUMMARY. MESSRS. DAWSON AND KIEFER OF AMINOIL CALLED ON ACTING DEPUTY ASST. SECRETARY LITTLE APRIL 4 TO DISCUSS CANCELLATION OF MINAS Y PETROLEOS CONCESSIONS. THEY EXPLAINED CONSORTIUM' S UNWILLINGNESS TO PAY INCREASED SURFACE RENTALS, STATED THAT COMPSNY SAW NO PROSPECT AT THIS TIME FOR NEGOTIATIONS WITH GOE, AND ASKED DEPARTMENT' S VIEWS ON POSSIBLE WAYS TO RESOLVE COMPANY' S DIFFICULTIES. END SUMMARY.

2. DAWSON (VICE PRESIDENT) AND KIEFER (ASST. GEN. COUNSEL) STRESSED THAT MINAS Y PETROLEOS RELUCTANCE TO PAY SURFACE RENTALS WAS BASED LARGELY ON ECONOMIC GROUNDS. MINAS Y PETROLEOS MUST PAY AT " EXPLOITATION- STAGE" RATE ON ONE OF ITS TWO CONCESSIONS, AND THIS RATE IS TEN TIMES " EXPLORA-
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TION- STAGE" RATES APPLICABLE TO MOST OTHER CONCESSIONAIRES, MOST OF WHOM HAVE PAID THE RENTALS- MINAS Y PETROLEOS ASSESSMENT, BASED ON ESTIMATED RESERVES AND HIGH SULFUR CONTENT OF OIL DISCOVERED TO DATE, IS THAT PAYMENT OF SURFACE RENTALS AT RATE SET BY GOE WOULD REDUCE RATE OF RETURN TO POINT THAT PROJECT WOULD NOT BE ECONOMICALLY VIABLE. DAWSON NOTED THAT PROJECTED RATE OF RETURN WAS ONLY ABOUT 10 PERCENT, AND THAT IT WOULD BE AT LEAST FIVE YEARS BEFORE THE CONCESSION WOULD PRODUCE OIL. HE ALSO ADMITTED THAT EXPLOITATION OF THE ESTIMATED 70,000 BARREL PER DAY CONCESSION WOULD NOT BE ECONOMICALLY FEASIBLE UNLESS THERE WAS SUFFICIENT OTHER PRODUCTION IN THE AREA TO JUSTIFY CONSTRUCTION OF THE NECESSARY PIPELINE FACILITIES. DAWSON SAID THAT PRIOR TO CANCELLATION AMINOIL HAD PROVIDED DETAILED WRITTEN STATEMENTS OF ITS POSITION TO PRESIDENT RODRIGUEZ AND MINISTER OF NATURAL RESOURCES JARRIN AND HAD EXPRESSED WILLINGNESS TO RENEGOTIATE OPERATING AGREEMENTS; HOWEVER, GOE POSITION, AS EXPRESSED BY JARRIN, WAS THAT PAYMENT OF SURFACE RENTALS MUST PRECEDE ANY DISCUSSION OF NEW CONTRACTS. AFTER CANCELLATION, CONSORTIUM WROTE JARRIN EXPRESSING DISAGREEMENT WITH GOE ACTION AND RESERVING COMPANY'S LEGAL RIGHTS.

3. ACCORDING TO AMINOIL REPS, AMERADA HESS IS PREPARED TO WRITE OFF MINAS Y PETROLEOS VENTURE AS LOST CAUSE. AMINOIL, ON OTHER HAND, IS DISPOSED AT THIS POINT TO LET MATTERS RIDE FOR A FEW MONTHS TO SEE IF GOE ATTITUDE CHANGES, SINCE THEY BELIEVE CONCESSION IS SUFFICIENTLY PROMISING TO BE WORTH DEVELOPING IF REASONABLE OPERATING AGREEMENT CAN BE WORKED OUT. THEY POINTED OUT, HOWEVER, THAT CONTINUANCE OF CONSORTIUM WITHOUT AMERADA HESS WOULD NOT BE POSSIBLE UNLESS BUYER COULD BE FOUND FOR AMERADA'S 57 PERCENT INTEREST, AND NO PURCHASER WAS LIKELY TO APPEAR AS LONG AS LEGAL STATUS OF CONCESSION REMAINED IN DISPUTE.

4. DEPARTMENT OFFICERS SAID THEY WERE UNABLE AT THIS TIME TO OFFER ANY SUGGESTIONS AS TO HOW GOE MIGHT BE INDUCED TO ADOPT MORE REASONABLE POSITION AND ENTER NEGOTIATIONS BUT WOULD REPORT AMINOIL'S VIEWS TO EMBASSY AND REQUEST LATTER'S ASSESSMENT OF SITUATION. EMBASSY'S COMMENTS ARE LIMITED OFFICIAL USE

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REQUESTED ON POINTS MADE BY AMINOIL, TOGETHER WITH VIEWS

ON WHETHER WE MIGHT USEFULLY DO ANYTHING AT THIS STAGE
EITHER IN QUITO OR WASHINGTON TO GET DIALOGUE STARTED
BETWEEN AMINOIL AND GOE. DOES EMBASSY CONSIDER THAT
RECENT GOE ANNOUNCEMENT OF MODEL CONTRACTS OFFERS ANY
OPPORTUNITY IN THIS REGARD? (DEPARTMENT WOULD APPRECIATE
ANY INFORMATION EMBASSY CAN PROVIDE ON THE MODEL CONTRACTS)

5. DAWSON AND KIEFER MADE SIMILAR PRESENTATION TO
TREASURY OFFICIALS PRIOR TO MEETING AT STATE DEPARTMENT.
ROGERS

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*** Current Classification *** LIMITED OFFICIAL USE

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